Solution 29.1

- A (Private) Limited is not a subsidiary because P Limited has relinquished its voting power and therefore does not control the company.

- B Limited is a subsidiary of P Limited. P Limited owns more than 50% of the voting rights in B Limited and therefore it controls the company.

- C Limited is a subsidiary of P Limited. P Limited controls 60% of the voting rights in C Limited indirectly through its control of B Limited. The fact that it is a foreign company makes no difference.

- S Limited is a subsidiary of P Limited. Although P Limited does not own more than 50% of the voting rights in S Limited, P Limited controls S Limited through its power to appoint or remove the majority of the board of directors.

- R Limited is a subsidiary of P Limited. P Limited controls 35% of R Limited directly as it owns 35% of the share capital and 30% of R Limited together with the shares owned by S Limited, which P Limited controls. Therefore P Limited controls 65% of the voting power of R Limited.

- D Limited is not a subsidiary, as P Limited has no control through A Limited and only controls 20% through B Limited.

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Solution 29.2

a) Pre-acquisition and post-acquisition dividends

A **pre-acquisition dividend** is a dividend paid by a subsidiary company out of profits that have been earned by the subsidiary prior to the parent company acquiring control of the subsidiary.

A **post-acquisition dividend** is a dividend paid by a subsidiary company out of profits that have been earned subsequent to the parent company acquiring control of the subsidiary.

The dividend paid on 3 April 20X8 is a pre-acquisition dividend
The dividend declared on 30 September 20X8 is a post acquisition dividend

b) Accounting for pre-acquisition and post-acquisition dividends

Prior to the 2008 amendment to IAS 27, parent entities recognised income from investments in subsidiaries only to the extent that dividends were paid out of post-acquisition accumulated profits; distributions received out of pre-acquisition profits were regarded as a recovery of the investment and were deducted from its cost.

The amendment requires all dividends, received and receivable to be recorded as income. However, IAS 36 'Impairment of Assets' has also been amended to include a dividend in excess of the investee's comprehensive income for the period as an indicator of possible impairment of the investment. The Amendments are effective for annual periods beginning on or after 1 January 2009.

Solution 29.3

PARENT LIMITED
JOURNAL

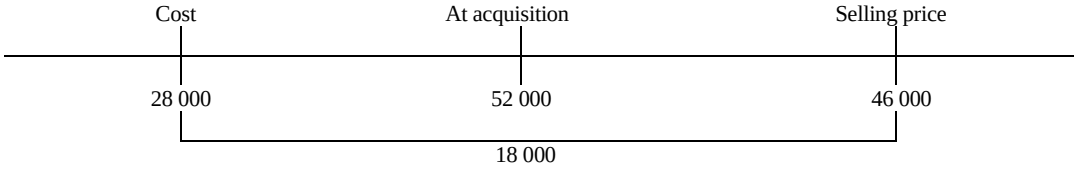
Date		Description	Debit	Credit
Jan	1	Investment in Subsidiary Limited	50 000	
		Bank		50 000
Purchase of 20 000 shares in Subsidiary Limited as per directors resolution dated …				
Jan	3	Bank	1 000	
		Dividend income		1 000
Dividend received from subsidiary company.				
June	30	Bank	3 000	
		Dividend received from subsidiary		3 000
Dividend received from subsidiary company				
Jan	2	Bank	5 000	
		Dividends income		5 000
Dividends received from Subsidiary Limited				
June	30	Bank	10 000	
		Dividend income		10 000
Dividend received from subsidiary company				
June	30	Impairment of investment	1 500	
		Investment in Subsidiary Limited		1 500
Investment written down to recoverable amount				

Solution 29.3 continued …

Workings

Purchase consideration		
Fair value of consideration transferred		50 000
Fair value of identifiable net assets		47 780
Share capital		20 000
Retained earnings 30.6.20X3		8 000
Profit to 31.12.20X3		2 500
Land		24 000
Deferred tax	(24 000 X 0,28)	(6 720)
Gain on acquisition / Goodwill		2 220

Sale of land	S Ltd	Group
Selling price	46 000	46 000
Cost	(28 000)	(52 000)
Profit / (loss)	18 000	(6 000)



Solution 29.4

a)

P LIMITED
JOURNAL

Date		Description	Debit	Credit
20X5				
July	1	Investment in S Limited	115 000	
		Bank		115 000
Purchase of all the shares in S Limited				
20X6				
June	30	Bank	20 000	
		Dividend income		20 000
Dividend received from subsidiary				
20X7				
June	30	Impairment loss	3 000	
		Investment in S Limited		3 000
Impairment of investment in S Limited				
20X8				
June	30	Bank	12 000	
		Dividend income		12 000
Dividend received from subsidiary company				
June	30	Investment in S Limited	1 000	
		Recovery of impairment loss		1 000
Reversal of impairment in S Limited				

Solution 29.4 continued …

b)

P LIMITED
EXTRACT FROM STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 20X6

	C
Investment in subsidiary	115 000

P LIMITED
EXTRACT FROM STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 20X7

	C
Investment in subsidiary	112 000

P LIMITED
EXTRACT FROM STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 20X8

	C
Investment in subsidiary	113 000

Workings

Purchase consideration	**C**
Fair value of consideration transferred	115 000
Fair value of identifiable net assets	115 000
Share capital	100 000
Retained earnings	15 000
Goodwill	-

Analysis of retained earnings (not needed for answer)

	Total	Before	Since
Balance 1.7.20X5	15 000	15 000	
Profit 30.6.20X6	16 000		16 000
Dividend 30.6.20X6	(20 000)	(4 000)	(16 000)
	11 000	11 000	-
Loss 30.6.20X7	(3 000)		(3 000)
	8 000	11 000	(3 000)
Profit 30.6.20X8	14 000		14 000
Dividend 30.6.20X8	(12 000)		(12 000)
Balance 30.6.20X8	10 000	11 000	(1 000)

Investment in S			
Description	***C***	***Description***	***C***
Bank	115 000	Impairment	3 000
Balance	112 000		
Impairment reversal	1 000		
Balance	113 000		

Solution 29.5

a) Journal entries in the accounting records of Pasta Limited

		Dr	Cr
01/01/X5	Investment in S (Pvt) Limited	1 460 000	
	Bank		1 460 000
	Purchase of 100% of shares		
03/01/X5	Bank	10 000	
	Dividend income		10 000
	Dividend received from pre-acquisition reserves		
30/06/X5	Bank	40 000	
	Dividend income		40 000
	Dividend received from pre and post acquisition reserves		
30/06/X6	Bank	90 000	
	Dividend income		90 000
	Pre-acquisition dividend on sale of property		
	Impairment of investment	60 000	
	Investment in S (Pvt) Limited		60 000
	Impairment of investment in S (Pvt) Limited		

Solution 29.5 continued …

b) Journal entries in the accounting records of Sauce (Pty) Ltd

		Dr	Cr
01/01/X5	Accumulated depreciation	35 000	
	Equipment		35 000
	Reversal of accumulated depreciation		
	Equipment	10 000	
	Deferred tax		2 900
	Revaluation reserve		7 100
	Revaluation of equipment		
30/06/X6	Depreciation	5 625	
	Accumulated depreciation		5 625
	Depreciation for the year (45 000 / 4 yrs X 6/12)		
	Tax expense	906	
	Deferred tax		906
	Originating temporary difference on equipment		
	Revaluation reserve	888	
	Retained earnings		888
	Transfer of realised portion to retained earnings		
	*[(5 625 – *4 325) X 0.71] or (7 100 / 4 X 6/12)*		
	**(35 000 / 4 yrs X 6/12)*		
30/06/X6	Depreciation	11 250	
	Accumulated depreciation		11 250
	Depreciation for the year (45 000 / 4 yrs)		
	Tax expense	1 813	
	Deferred tax		1 813
	Originating temporary difference on equipment		
	Revaluation reserve	1 775	
	Retained earnings		1 775
	Transfer of realised portion to retained earnings		
	*[(11 250 – *8 750) X 0.71] or (7 100 / 4)*		
	**(35 000 / 4 yrs)*		
	Cash	1 600 000	
	Property		1 500 000
	Profit on disposal		100 000
	Sale of property		

Solution 29.5 continued …

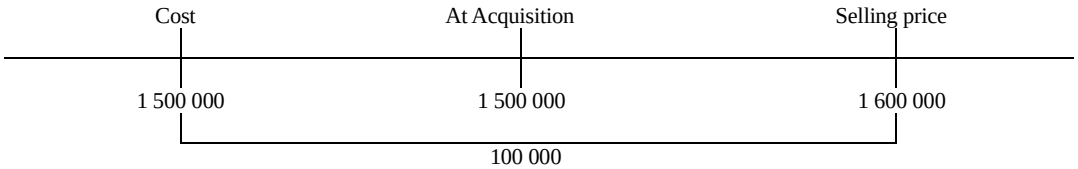
Workings

W1 Purchase consideration

Fair value of consideration transferred		1 460 000
Fair value of identifiable net assets:		1 210 000
Share capital		1 000 000
Retained earnings at acquisition	(152 900 + 50 000)	202 900
Equipment		10 000
Deferred tax		(2 900)
Goodwill		250 000

W2 Sale of property

	Sauce Limited	Group
Selling price	1 600 000	1 600 000
Cost	(1 500 000)	(1 500 000)
	100 000	100 000



W3 Analysis of retained earnings of Sauce Limited (not required for answer)

					Total	Before	Since
01/07/X4		Balance			152 900	152 900	
01/07/X4 31/12/X4	-	Profit	(75 000 25 000)	-	50 000	50 000	
		At acquisition			202 900	202 900	
03/01/X5		Dividend			(10 000)	(10 000)	
					192 900	192 900	
01/01/X5 30/06/X5	-	Profit	(45 000 15 000)	-	30 000		30 000
30/06/X5		Dividend			(40 000)	(10 000)	(30 000)
		Transfer from RS			888	888	
					183 788	183 788	0
01/07/X5 30/06/X6	-	Loss			(60 000)		(60 000)
30/06/X6		Profit on sale of property			100 000	100 000	
		Dividend			(90 000)	(90 000)	
		Transfer from RS			1 775	1 775	
30/06/X6		Balance			135 563	195 563	(60 000)

Solution 29.5 continued …

W4 Equipment

			CA	TB	TD	DT (29%)	NDR	RE
01/07/X2			70 000	70 000				
01/07/X2 - 31/12/X4	Accumulated depreciation / Tax allowance	(70 000 X 020 X 2.5) / (70 000 X 0.25 X 2.5)	(35 000)	(43 750)				
			35 000	26 250	8 750	2 538		
01/01/X5	Revaluation		10 000		10 000	2 900	7 100	
			45 000	26 250	18 750	5 438		
01/01/X5 - 30/06/X5	Accumulated depreciation / Tax allowance	(45 000 / *4 yrs X 6/12) *(2.5 + 1.5) / (70 000 X 0.25 X 6/12)	(5 625)	(8 750)	3 125	906		
	Transfer to RE	^(7 000/4yrs X 6/12)					^(888)	888
			39 375	17 500	21 875	6 344		
01/07/X5 - 30/06/X6	Accumulated depreciation / Tax allowance	(45 000 / 2.5 yrs) / (70 000 X 0.25)	(11 250)	(17 500)	6 250	1 813	(1 775)	1 775
			28 125	0	28 125	8 157	4 437	